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THE SILVER QUESTION AGAIN.

BY JESSE SELIGMAN.

THE first essentials of production and commerce are certainty and stability. Absolute certainty is, of course, never attainable; even moderate certainty is rare. Whatever reduces uncertainty aids enterprise. The physical obstacles surrounding undertakings are difficult enough to foresee; they should not be complicated wilfully.

It is apparent that in a community where money is unknown and barter is in vogue there would be two causes affecting the value of any article which the owner desires to exchange for any other article. These would be, first, the amount of the former as compared with the needs of the community, and, secondly, the amount of the latter, similarly compared. The value of the article would vary according to this compound ratio, and any one making a contract must run the risk of variation in each ratio. The introduction of money does away with one of these causes of complication by substituting a standard whose variations are exceedingly slow in their operation. For this purpose all civilized nations have come to use gold, a metal whose scarcity and usefulness have qualified it for the purpose. It will not, presumably, be questioned that in industrial and commercial operations certainty is essential, and it should be clear that this certainty is better attained by a standard in conformity with that of other communities than by a different one.

On this point the mere mention of a few facts drawn from our own experience will dispel all doubt. Our surplus agricultural products are all exported to countries having a gold standard, and are paid for in that standard. Suppose for a moment ours to be a silver standard, and what results? Our farmers are paid in silver, while grain and cotton prices follow not only agricultural prices

abroad, but the price of silver as well. Wider variations in price, more difficult to foresee, result, together with an increase and accentuation of that speculation which the producer regards as so injurious to his interests, and the producer suffers : prudent buyers for uncertain markets insist on ample margin to guard against loss, and this means lower prices for the producer.

It seems unnecessary to say more on this point ; the statement carries its own proof. If we had no commercial relations with other countries, a silver standard would answer our purpose as well as a gold standard. True ; but we have such relations, and they are of enormous importance. A standard different from that of the commercial world would affect the vast mass of our imports and exports, and but little less directly every other industry touching these at any point. We desire to create a foreign market for our products ; and shall we manifest our desire by putting obstacles in the way of its fulfilment ? But it is said that the country is crying for more circulating medium : whether it needs it or not, is a question apart from the question of free coinage of silver, and one to be considered on its own merits. If it is needed, by all means let it be furnished ; but let it be a medium that will cure and not aggravate the complaint.

But enough—the contention so far is but this : the most stable commercial condition is the most favorable ; a common standard with other nations gives more stability than the reverse. This is only saying that it is easier to walk a steady than a swaying tight-rope.

Does free coinage of silver mean a silver standard ? Undoubtedly ; and the most disastrous effects of free coinage are not, by far, those outlined above, but consist in the agonies of transition.

What is free coinage ? Free coinage of silver means that any one may present $412\frac{1}{2}$ grains of silver 900 fine at the mints of the United States and have a silver dollar coined therefrom. But silver 1,000 fine is worth in the market \$1.05 per ounce of 480 grains ; so $412\frac{1}{2}$ grains 900 fine can be bought for 81 cents. Who would not jump at so simple and certain a profit ? The government stands ready to give \$1 for a quantity of metal that may be purchased for 81 cents ; the profit is certain ; there is no risk. Is it doubted that practically all silver bullion in the country will flow into the mint, that silver will come from abroad for the same purpose, and that the product of the mines will take

the shortest road to the same shelter ? So large an increase in circulating medium causes a rise in prices, which checks exports and stimulates imports of commodities,—checks exports, for foreign countries cannot use our products at such high prices ; stimulates imports, for foreign merchandise is then cheap, compared with our prices. So at the moment when we have the most imports to pay for we are deprived of our usual means of paying for them, namely, our exports. But pay we must ; commodities cannot be sent except at a loss ; only gold can be had on the old basis ; silver cannot go, for who will send silver abroad for the privilege of receiving 81 cents, when at home the state offers a dollar ? So the gold goes, and a wild scramble begins for the metal which is, after all, the standard of the world. The gold in government vaults is quickly drained, then follows a premium, and the silver standard is upon us.

The magnitude of the forces at work to bring about these results can be seen by considering a few important figures. The mines of the United States yielded during the calendar year 1889 gold to the value of \$32,800,000 ; silver with a commercial value of \$46,750,000, but with a coining value of \$64,646,464. The whole world produced in the same year \$121,162,000 of gold and \$161,318,000 (coining value) of silver.

The stock of gold and silver in the United States on November 1, 1890, is estimated by the Director of the Mint to have been \$1,180,236,177, of which \$694,865,680 consisted of gold coin and bullion. The metallic assets of the treasury of the United States on the same date consisted of \$294,489,602 gold and \$352,566,752 silver.

In other words, the greater part of the treasury assets already consists of silver. Under a free-coinage law, the four hundred millions of gold now circulating or hoarded by private parties or banks outside of the treasury vaults would at once disappear from circulation, while the gold in the treasury would remain no longer than the time required for the physical effort to remove it.

The effect of a change of standard on enterprises in course of execution, on established business, on investments,—in fact, on all industry,—is most disastrous. Such a change defeats every reasonable expectation formed before it took place. Merchants that have bound themselves to make large payments in other countries, and therefore in gold, receive silver from those that

owe them, and so cannot pay their debts, or, if they can, then only at immense loss. Railroads receive silver for freight and passengers carried, and have promised to pay their bonds and coupons in gold ; and so throughout the list. But this is only the beginning. The failure of one merchant means the failure of others, his creditors ; mercantile failures, the stoppage of factories, the ruin of railroads, mean laborers and mechanics thrown out of employment, reduced wages to those remaining, and, to crown all, decreased purchasing power of these reduced wages. Prices of commodities rise rapidly ; wages but slowly.

Let it not be forgotten what such a condition means : translated into daily newspaper reports, it reads, distrust ; failure upon failure of commercial houses, of banks, of factories ; demoralization ; panic ; then hard times ; utter stagnation and dulness, and, accompanying all this, suffering and hardship.

Those who will feel these hardships most keenly are wage-earners and farmers, the people of small means, for they have no surplus on which they can depend : a reduction of the purchasing power of wages means to them an inroad on the comforts and necessities of life, and not merely smaller savings, as it does to those of larger means.

It is admitted that our coinage as at present constituted is not satisfactory ; the discussion of a remedy is an interesting subject, but one which the present limits will not permit us to enter on. Let it here suffice that our inquiry has shown free coinage not to be the remedy, for it is a blow at prosperity—a blow the main force of which will fall on wage-earners and producers. Let these examine the question candidly, and if they do not bring their representatives to a realizing sense of their position, they will have only themselves to blame for the consequences.

Whether the solution will ultimately be in international bimetallism, time will show ; conferences of all the principal nations to discuss the subject should be encouraged. Meanwhile it is to the interest of every section of the country that it do not expose itself to grave dangers in attempting the impossible.

Just here the cry for more circulating medium calls for a word concerning the distinction between free coinage and the coinage of a fixed amount of silver by the state. The coinage of a fixed amount by the state stands, for purposes of circulation, on the same basis as an issue of paper money. As a circulating

medium it is good as long as there is back of it, in the control of the state, an amount of gold sufficient to meet all demands for redemption. It circulates because every one believes it to be convertible into gold on demand. What proportion such issues must bear to reserves is a matter of banking experience. But it is here important to note the distinction between this condition and free coinage ; it is a difference of kind, not of degree.

Let us formulate the conclusions forced upon us. We see that certainty is a necessary element of prosperous industry ; that a standard of value in common with other countries contributes to certainty ; that free coinage of silver causes a different standard ; that therefore free coinage of silver is a measure hurtful to the prosperity of the country ; and, above all, that the financial strain incident to the change of standard will be severer than any previously experienced in this country.

JESSE SELIGMAN.